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Annual Report · April 30, 1974

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CANADIAN EXPORT GAS & OIL LTD.





DIRECTORS	August F. Beck, <i>Calgary</i> <i>President and General Manager of the Company</i> John Drybrough, <i>Winnipeg</i> <i>Director of Newmont Mining</i> <i>Corporation of Canada Limited</i> Francis Kernan, <i>New York</i> <i>Director and Consultant of White, Weld & Co.</i> <i>Incorporated</i> P. C. Lauinger, <i>Tulsa</i> <i>Chairman of the Board</i> <i>The Petroleum Publishing Company</i> Plato Malozemoff, <i>New York</i> <i>Chairman of the Board, President and a Director</i> <i>of Newmont Mining Corporation</i> Milton H. Mandel, <i>New York</i> <i>An Attorney-at-Law</i> John D. Petrie, <i>Calgary</i> <i>Partner of the Law Firm of</i> <i>Cromarty, Petrie & Bridges</i> Franz Schneider, <i>New York</i> <i>Financial Consultant</i>
OFFICERS	August F. Beck, <i>President and General Manager</i> Paul C. Evans, <i>Vice-President – Production</i> W. P. Hancock, <i>Vice-President – Exploration</i> Derek N. Walker, <i>Secretary-Treasurer</i> John P. Fitz-Gibbon, <i>Assistant Secretary</i>
HEAD OFFICE	736 - 8th Avenue S.W., <i>Calgary, Alberta T2P 1H4</i>
SUBSIDIARIES	Canadian Export Gas & Oil Inc. Canadian Export Gas & Oil (U.K.) Limited
SHARES LISTED	American Stock Exchange, <i>New York</i> Midwest Stock Exchange, <i>Chicago</i> The Toronto Stock Exchange
TRANSFER AGENTS	Crown Trust Company, <i>Calgary and Toronto</i> Harris Trust and Savings Bank, <i>Chicago</i> Bankers Trust Company, <i>New York</i>
REGISTRARS	Crown Trust Company, <i>Calgary and Toronto</i> American National Bank and Trust Company, <i>Chicago</i> The Bank of New York, <i>New York</i>
AUDITORS	Peat, Marwick, Mitchell & Co., <i>Calgary</i>

Additional copies of this report may be obtained from the Company's Head Office, 736 - 8th Avenue S.W., Calgary, Alberta T2P 1H4. The Company does not make any charge for these copies, nor does it accept any distribution charges from nominees or agents.

HIGHLIGHTS · 1974

	1973-74	1972-73
PRODUCTION (Net after royalties):		
Oil and Gas Liquids – Annual Barrels	626,140	591,184
– Daily Average Barrels	1,715	1,620
Natural Gas – Annual Billion Cubic Feet	7.904	8.507
– Daily Average Million Cubic Feet	22	23
Sulphur – Annual Long Tons	16,431	17,539
– Daily Average Long Tons	45	48
EARNINGS:		
Gross operating income	\$4,095,000	\$3,314,000
Cash flow from operations	\$2,721,000	\$2,045,000
Per Share	33¢	25¢
Net earnings before deferred income taxes and extraordinary items	\$ 904,000	\$ 710,000
Per Share	11¢	9¢
Net earnings before extraordinary items	\$ 551,000	\$ 435,000*
Per Share	7¢	5¢*
Net earnings	\$ 551,000	\$ 481,000*
Per Share	7¢	6¢*
CAPITAL INVESTMENT:		
Exploration	\$2,718,000	\$1,527,000
Development	\$ 884,000	\$ 294,000
WORKING CAPITAL	\$1,015,000	\$1,896,000
LAND HOLDINGS:		
Canadian – Gross acres	4,890,000	5,323,000
– Net acres	2,345,000	2,494,000
Foreign – Gross acres	7,140,000	7,026,000
– Net acres	1,730,000	1,702,000

* Restated to reflect retroactive change in accounting for deferred income taxes (see note 3 to consolidated financial statements).

ANNUAL MEETING

The 1974 Annual General Meeting of shareholders will be held on July 18, 1974, at 2:00 P.M. at the Company's Head Office, 736 - 8th Avenue S.W., Calgary, Alberta.

President's Report to the Shareholders

Highlights of the past year include:

- Major increases in prices received for oil and natural gas, tempered by aggressive taxation moves by Canada's Federal and Provincial governments which have created considerable uncertainty for the industry.
- Acquisition by CEGO of a 25% interest in a producing gas field at Hilda, Alberta.
- Expansion of the Company's international exploration program.
- Another major permit acquisition on the Labrador shelf bringing the Company's holdings to 412,000 net acres in this area.

Financial

Gross income of \$4,095,000 was 24% higher than last year. Cash flow increased 33% to \$2,721,000. Net earnings were \$551,000, 27% higher than the \$435,000 earned last year.

As fully explained in Note 3 to the consolidated financial statements, the Company has adopted the tax allocation basis of accounting for income taxes. This change has been applied retroactively so that 1973 earnings and all prior years' results reported in the 10 year statistical summary have been restated to provide proper comparison.

Production

Oil production was 6% higher and gas production 7% lower in 1973-74. But the significant development was the substantial increase in the price received for oil and natural gas.

The average oil price to the Company after royalties, increased from \$3.26 to \$5.00 per barrel and the average natural gas contract prices increased from 14¢ to 18¢ per thousand cubic feet after royalties. Further gas price increases will occur in November 1974.

In order to increase its gas reserves, your Company acquired a 25% interest in 23 gas wells, a gathering system and plant in the Hilda area of Alberta, from which the annual income is expected to be \$150,000. The Company also participated in construction and development programs to increase recovery of liquids from the Strachan and Ricinus plants and oil from the Meekwap field by a secondary recovery method. A Company operated natural gas plant being constructed in the Provost area is scheduled to go on production by fall.

Exploration

CEGO participated in the drilling of 21 exploratory wells in the past year, resulting in two oil discoveries and three gas discoveries.

The two oil finds were at Twining and Harmattan, Alberta. The gas finds also in Alberta, were at House River, Lanaway and Saddle Lake.

Other exploratory wells were drilled without success in Alberta, Saskatchewan, British Columbia, Northwest Territories, the North Sea and Louisiana.

Foreign geophysical studies and other evaluations were carried out in the North Sea, Italy, offshore Peru, Kenya and offshore Nigeria. Canadian seismic programs were obtained for the Beaufort Sea, Hudson Bay, the Carcajou area of the Northwest Territories, and offshore Labrador.

The Company has continued its program of land acquisition in foreign areas and in various parts of Canada.

General

It is important to note that current higher earnings haven't existed for a long enough period at a sufficiently high level to provide a realistic return on the shareholders' investment considering the risk involved. Nor does this increased return provide for the escalating cost of exploration and development of the additional reserves needed to fulfill the requirements of the Canadian economy. Present excessive participation by the provincial governments in the profits of the industry will simply accentuate the elimination of a number of prospects and areas which will become uneconomical to develop and explore. Obviously such action forced on the industry by these punitive government measures will result in a very appreciable amount of reserves never being discovered and developed for the Canadian consumer.

Recent submission of the budget to Parliament by the Liberal government failed to gain the necessary support, resulting in the government being brought down and an election being called for July 8, 1974. Among the proposals made in this budget by the Liberal government was one which provided for taxes to be paid on the already excessive royalties now being imposed by the various provincial governments.

This proposal has a complete disregard for the economics necessary for the industry and could be viewed as an attempt to effectively take over the industry by the government's power of taxation.

During the election campaign the petroleum industry has attempted to make an effective presentation to the Canadian people demonstrating that the proposed legislation would be catastrophic, not only potentially to the industry but also eventually for Canada; that the industry can still perform its functions better than government, which will in great measure be politically oriented in exploring for and developing oil and gas.

Your Management under present circumstances and with proposed legislation in abeyance cannot attempt to predict how its earnings or its future activity will develop. However, its acreage, both at home and abroad and its cash flow, should place it in a com-

paratively sound competitive position to add to its assets providing legislation and government action will allow such efforts to be profitable and worthwhile.

The Company reports, with a deep sense of loss, the death of Dr. Fred Burton, a Director of the Company, shortly after the last Annual Meeting. Dr. Burton had been a member of your Board since 1966. His lifetime of experience in both the mining and oil industries, his sound judgment and interest in the affairs of the Company, were deeply appreciated and will be sorely missed.

Your Management is pleased to announce the appointment to the Board of J. D. Petrie, a Canadian lawyer. Mr. Petrie has had a long association in the oil business. He has been active in civic and local projects in Calgary and is acquainted with both local and federal legislation. His experience and background should be of inestimable assistance to the Board and the Company.

The Board of Directors and Management would like to extend their sincerest appreciation for the efforts of the Company's staff throughout the past year of expansion and growth.

A. F. Beck

A. F. Beck
President

June 4, 1974

Production

CEGO's net oil and natural gas liquids production in 1973-74 was 626,000 barrels compared to 591,000 barrels the previous year. This is an increase of 5.9% and is a record production for the Company.

Net gas production was 7.9 billion cubic feet compared to 8.5 billion cubic feet, a decline of 7.0%. The decrease in gas production is mainly due to a decline in deliverability of the Strachan Unit and normal decrease in productivity of CEGO's older fields. Development drilling amounted to four wells, two oil and two gas.

The Company is presently receiving 26 cents per thousand cubic feet for all its gas except that sold from the Strachan Field, which is at 18.25 cents. Effective November 1, 1974 all gas prices have been redetermined and CEGO will receive approximately 60 cents per thousand cubic feet for all its gas, except Strachan at 20 cents. The Crown royalty rate for 60 cent gas will be 39% and for 20 cent gas 22%.

CEGO has increased its holdings in the Hilda area of Alberta by purchasing a 25% interest in 23,040 acres. This property adjoins the Company's existing Hilda productive area (see map on this page). This interest includes 23 shallow wells, a completed gathering system connecting eight wells, and a dehydration and compressor plant to handle the daily production from these wells. This gas is presently being sold for 26 cents per thousand cubic feet but will increase to 60 cents on November 1, 1974. This purchase is expected to generate approximately \$150,000 of new income in the coming year.

A successful development well was completed in the Hilda area and connected to the Company's gathering system.

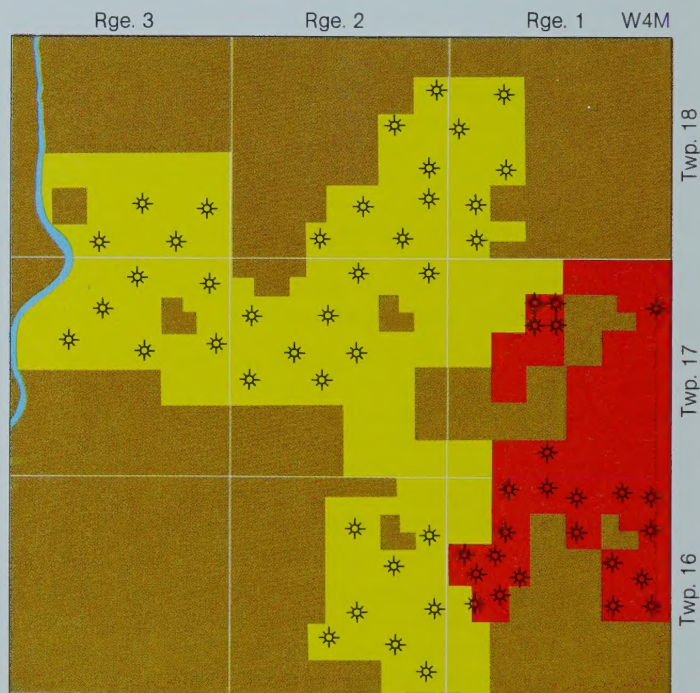
The planned development well in the Strachan Unit has been delayed until late June due to the shortage of steel casing needed for completion.

Strachan plant expanded facilities were completed during 1973 for the recovery of LPG liquids. After correction of problems in process equipment a recovery of 15 barrels per million cubic feet is being realized.

The processing plant for the recovery of liquids from solution and unassociated gas from the Ricinus field Cardium pools was completed. The reservoir is presently under a cycling scheme. Product recovery for CEGO's interest is estimated at about 500 barrels per month.

Plans are proceeding for joint facilities to connect and process gas reserves in the Provost area. Compressor and process equipment designed for 5.6 million cubic feet per day has been ordered. Production operations are expected to commence by early fall 1974. CEGO's share of throughput will be about 1.5 million cubic feet per day.

Unitization of the Meekwap D-2A oil reservoir has been completed and waterflood operations commenced April 1, 1974. This water injection scheme is expected to increase recovery by 20% and to effect maintenance of production rates.



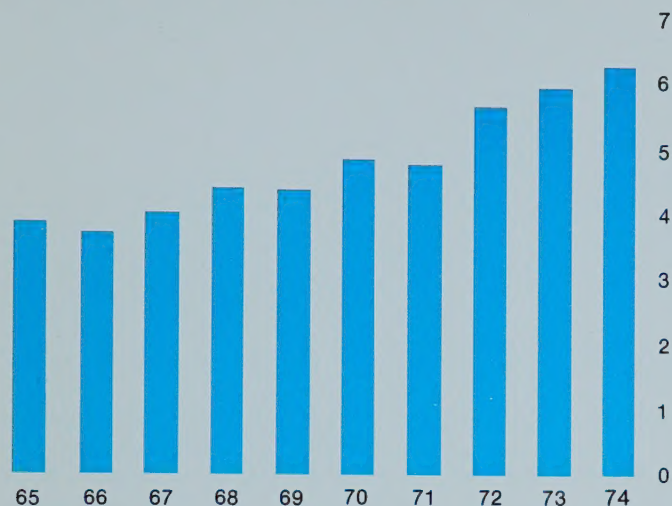
Canadian Export Gas & Oil Ltd.

HILDA AREA

- CEGO 100% natural gas rights
— Medicine Hat zone.
- CEGO 25% petroleum and natural gas
rights excluding Medicine Hat zone.
- * CEGO Gas Wells

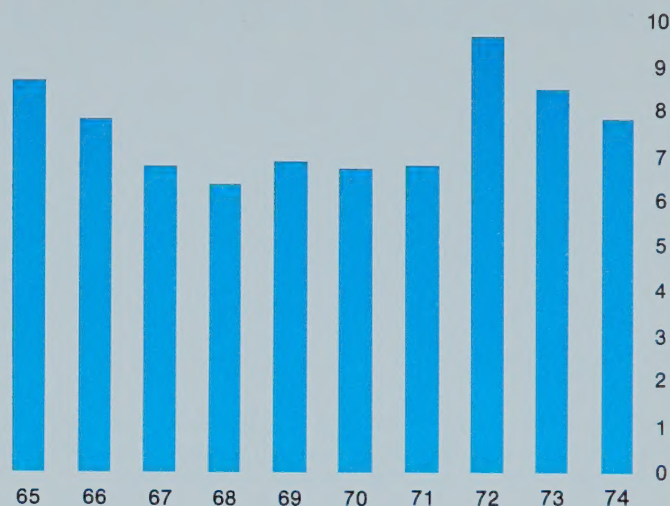
NET OIL & GAS LIQUIDS PRODUCTION

HUNDREDS OF THOUSANDS OF BARRELS



NET GAS PRODUCTION

BILLIONS OF CUBIC FEET



Net Oil & Gas Liquids Production by Fields

(After Royalties)

	(Net Barrels)					
	1974	1973	1972	1971	1970	1969
Viriden-Roselea, Man.	142,676	150,838	152,225	163,147	172,152	161,962
Florence-Carnduff, Sask.	36,960	40,365	49,727	58,381	64,580	71,352
Swan Hills, Alberta	67,480	80,383	81,342	84,359	88,088	70,140
Big Valley, Alberta	80,311	74,680	49,255	41,975	37,722	30,681
Crossfield, Alberta	23,452	21,887	21,301	20,868	22,025	30,635
Virginia Hills, Alberta	17,381	20,245	21,124	23,899	24,294	22,753
Northgate, Sask.	7,450	7,333	8,314	8,638	10,926	14,923
Manyberries, Alberta	10,904	10,850	7,591	7,049	9,754	10,798
Browning-Willmar, Sask.	1,047	2,963	5,029	6,367	5,705	4,308
Swalwell, Alberta	2,748	2,503	2,894	2,895	2,080	1,710
Zama, Alberta	12,916	11,850	7,201	11,763	11,581	—
Meekwap, Alberta	45,344	34,632	29,095	6,435	—	—
Strachan, Alberta	163,517	123,665	124,316	27,795	—	—
Other Areas	13,954	8,990	10,069	16,697	37,285	21,467
	626,140	591,184	569,483	480,268	486,192	440,729

Net Gas Production by Fields

(After Royalties)

	(Billion Cubic Feet)					
	1974	1973	1972	1971	1970	1969
Stevieville	0.782	0.955	1.135	1.320	1.690	2.065
Bindloss	1.624	1.624	1.965	1.923	2.157	1.731
Hilda	1.303	1.325	1.491	1.533	1.644	1.703
Sedalia	0.408	0.410	0.417	0.393	0.397	0.392
Wood River	0.200	0.120	0.131	0.173	0.244	0.348
Atlee-Buffalo-Jenner	0.077	0.101	0.107	0.103	0.199	0.287
Countess-Duchess	0.107	0.111	0.060	0.085	0.085	0.104
East Crossfield	0.063	0.095	0.105	0.110	0.098	0.070
Crossfield Turner Valley	0.046	0.048	0.050	0.045	0.044	0.039
Strachan	3.240	3.631	4.149	1.014	—	—
Other Areas	0.054	0.087	0.060	0.105	0.221	0.207
	7.904	8.507	9.670	6.804	6.779	6.946

Exploration & Land

CANADA

During 1973 your Company participated in seismic programs in the Beaufort Sea, Hudson Bay, and the Carcajou area of the Northwest Territories.

CEGO's exploratory drilling resulted in 2 oil wells and 3 gas wells out of a total of 21 wells drilled.

New exploratory acreage was acquired in Alberta, British Columbia and offshore Labrador.

Alberta

During the past year, 16 exploratory wells were drilled, 5 of which were drilled under farmout or option at no cost to the Company. This exploratory drilling resulted in the discovery of 2 oil wells and 3 gas wells.

In the Saddle Lake area, a Viking gas well was completed by another operator on acreage farmed out by CEGO and partners. A farmout of an adjacent permit of approximately 18,000 acres is being finalized and could result in the drilling of 3 additional wells by the farmee.

In the Twining area, the Company participated at a 10% working interest in a Mississippian oil discovery. A follow-up development well was successful and additional development locations have been defined by this drilling.

An oil discovery at Harmattan in which the Company has a 7% interest, has been suspended.

At Stony Plain, CEGO Stony Plain 10-20-52-2 W5M was subjected to extensive production testing and has been suspended as non-commercial.

At House River, CEGO drilled CEGO Wincan House 6-7-78-15 W4M to earn a 50% interest in a 6,400 acre drilling reservation. House River 6-7 was suspended as a Devonian Grosmont gas well due to spring break-up conditions and will be further evaluated next winter.

At Lanaway in central Alberta, Amoco completed an 8,000 foot Elkton gas well. By pooling 160 acres to complete the gas spacing unit, CEGO will earn a 12½% interest in the gas well after payout.

In western Alberta, Union et al Nose Creek 13-32-64-12 W6M which spudded November 16, 1972 was abandoned at final total depth of 18,670 feet on September 22, 1973 after failing to encounter commercial hydrocarbon production.

British Columbia

Exploration by operators in northeastern British Columbia for Devonian and shallower Mississippian gas has increased during the past winter drilling season. Your Company has increased its land holdings by acquiring a 33⅓% interest in 36,833 acres at Trutch and a 25% interest in 31,188 acres at Sahtaneh. In addition, at Thetlaandoa, north of Kotcho Lake, CEGO has participated in a seismic program on 33,400 acres with an option to earn a 16⅔% interest by drilling.

CEGO joined Dome Petroleum in an exploratory test in the Pingel Creek area, 15 miles southeast of Fort St. John, B.C. Dome CEGO Pingel 10-24-81-18 W6M was abandoned at 6,050 feet in the Triassic Halfway sand.

Saskatchewan

In southwestern Saskatchewan, your Company participated in three unsuccessful Jurassic tests near the Rapdan, Whitemud and Success fields. CEGO's interest amounted to a 25% working interest in 2 wells and a 50% working interest in the third.

In the Gainsborough area of southeastern Saskatchewan, CEGO retained a 5% royalty interest on a Mississippian oil well drilled in the third quarter.

Canadian Export Gas & Oil Ltd.
WESTERN CANADIAN PROVINCES

- ▲ CEGO Oil Producing Properties
- CEGO Gas Producing Properties
- CEGO Oil Royalty Income
- CEGO Gas Royalty Income
- CEGO Unproven Acreage



Canadian Frontier Exploration

Northwest Territories

In the Carcajou area, northwest of Norman Wells, CEGO participated in TPPL et al Carcajou J-27 to earn a 12½% interest in 52,982 gross acres. Carcajou J-27 was dry and abandoned at 3,250 feet and further drilling in the area is not presently contemplated.

Mackenzie Delta-Beaufort Sea (See map)

During the past summer the Company participated in approximately 350 miles of CDP seismic survey and the purchase of an additional 72 miles of a joint survey on the West Beaufort and Atkinson permits. Final interpretation of the programs has delineated several structures on the West Beaufort permits. An additional 200 miles of joint marine seismic survey plus a Mackenzie Delta seismic program have been acquired. These latter programs will be incorporated with CEGO's data to attempt correlation of the structures and stratigraphy of the West Beaufort permits with the Mackenzie Delta.

Drilling in the Beaufort Sea has been deferred until 1976 to allow industry and government to conduct pertinent ecological studies. Governmental regulations concerning operations in this region should be formulated by this date. Dome Petroleum Ltd. and Hunt International are reported to be readying two drillships for Beaufort Sea drilling as early as the fall of 1975. The first drillsite is proposed for permit A-2228 on Dome Oil Co. farmout acreage located approximately 36 miles northeast of CEGO's northernmost West Beaufort permit.

Hudson Bay (See map)

CEGO participated in a marine seismic program which provided 1,500 miles of CDP data, part of which traversed its joint acreage. This seismic data is currently being evaluated to determine sediment thicknesses and to locate structural features.

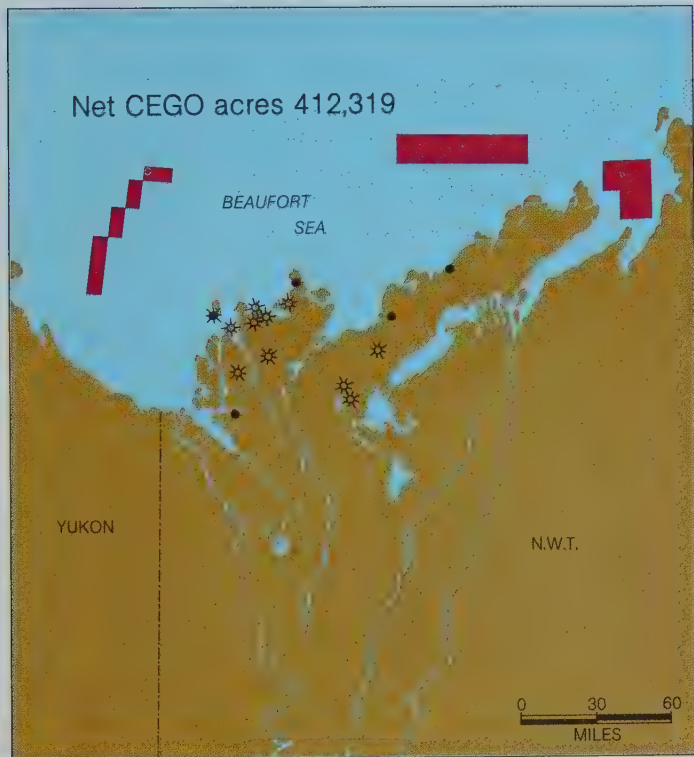
Aquitaine has announced plans to resume drilling activity in Hudson Bay during the summer of 1974. Two wells are expected to be drilled during the short summer drilling season.

Eastcoast Labrador (See map)

CEGO acquired a 30% interest in ten permits totalling 305,397 gross acres adjacent and north of CEGO's southern group of permits. CEGO now has an interest in 946,000 gross acres (412,094 net) on the Labrador Shelf.

Your Company purchased 550 miles of marine participation seismic data near and adjacent to its Labrador permits. Seismic coverage over the Bjarni structure 32 miles south of Permit W-5032 is included in this data.

The Eastcan Group is scheduled to re-enter the Bjarni H-81 well this summer to evaluate the significant hydrocarbon shows encountered. Further drilling activity by this group is anticipated.

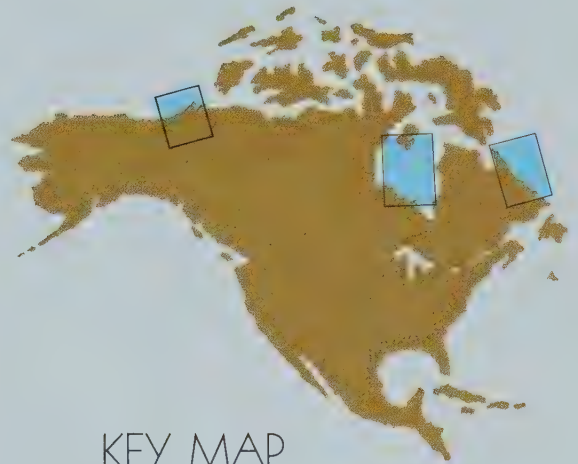


MACKENZIE DELTA AREA

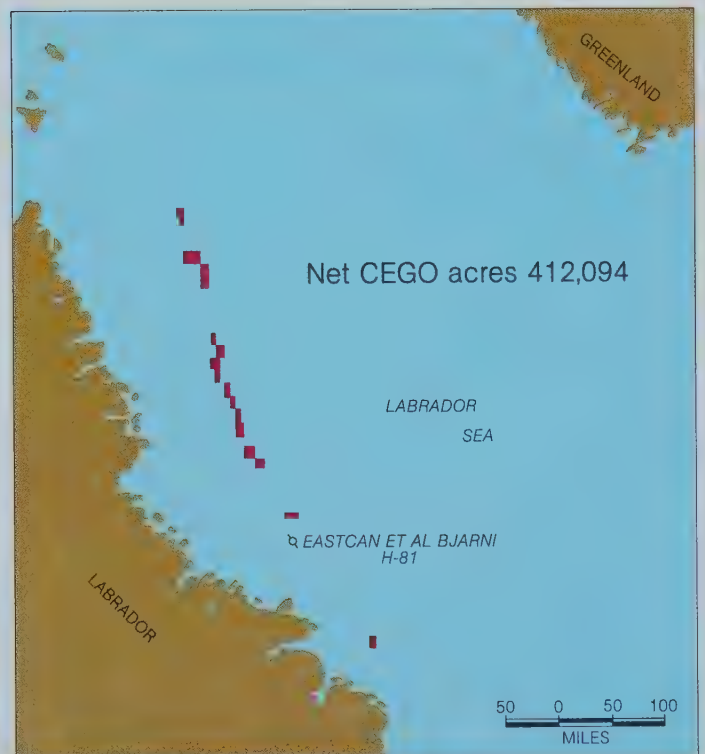
Canadian Export Gas & Oil Ltd. CANADIAN FRONTIER

CEGO Areas of Exploration

- Oil Well
- ☆ Gas Well
- ★ Oil and Gas Well
- ⊠ Suspended Well



HUDSON BAY AREA



LABRADOR AREA

Foreign Exploration

The Company's foreign exploration activities during the past year included seismic operations in the North Sea, off the west coast of Italy and offshore Peru. A restudy of existing seismic data on a portion of, and adjacent to, our Kenya block was completed. A geologic field study was also carried out in areas pertinent to the Kenya acreage. An evaluation of available seismic data covering an offshore Nigeria block was carried out in connection with an option to drill on the block to earn an interest. The Company is a participant in a group that currently has made an application for two onshore blocks in Portugal. One well was drilled and abandoned in the North Sea area of the United Kingdom and a well drilling at year end in Louisiana has since been abandoned.

North Sea (See map)

The Zapex et al 43/11-1 well in the southern portion of the North Sea was abandoned at a total depth of 4,410 feet. Drilling of this well completes the requirements on the two blocks included in the Licence in this area. Further activity on this Licence will be dependent upon results of drilling on nearby blocks by other operators.

Some further seismic work is planned on the centre block (29/6) of the three constituting CEGO's northern North Sea Licence. The northern block, 21/2, however is ready for drilling. (It now appears unlikely that a rig will be available until sometime in 1975.) Through exchanges of seismic data and correlation of this data with what is known and indicated regarding the geology of surrounding wells the Company is optimistic regarding the possibilities of the structure mapped on this block. Since the last annual report the Piper field 30 miles to the north has been confirmed as a major oil field through drilling of 7 wells. British Petroleums found oil shows in a well on the block diagonally northwest of block 21/2. Other drilling on nearby blocks is underway or planned as indicated on the map.

The Company participated in the acquisition and interpretation of several hundred miles of seismic data in the Norwegian North Sea.

Kenya

A restudy of seismic data on and relating to portions of acreage in Kenya has been completed. This, to-

gether with a field geologic study, has provided a basis on which further exploration planning will be based.

Italy

Results of the initial seismic program on the acreage along the Gulf of Taranto have not been particularly definitive. Any further activity will be dependent upon results of drilling which may be carried out by other operators on adjacent blocks.

Award of five blocks off the coast of southwest Italy was made last fall. CEGO has a 25% interest in these blocks amounting to a net 42,000 acres. An initial seismic program over these blocks was completed in April and interpretation is now underway.

Nigeria

The Company participated in a review of seismic data over a Nigeria offshore block under an agreement to drill to earn an interest in the acreage. The review indicated that prospects were not sufficiently interesting to warrant drilling and this project has been abandoned.

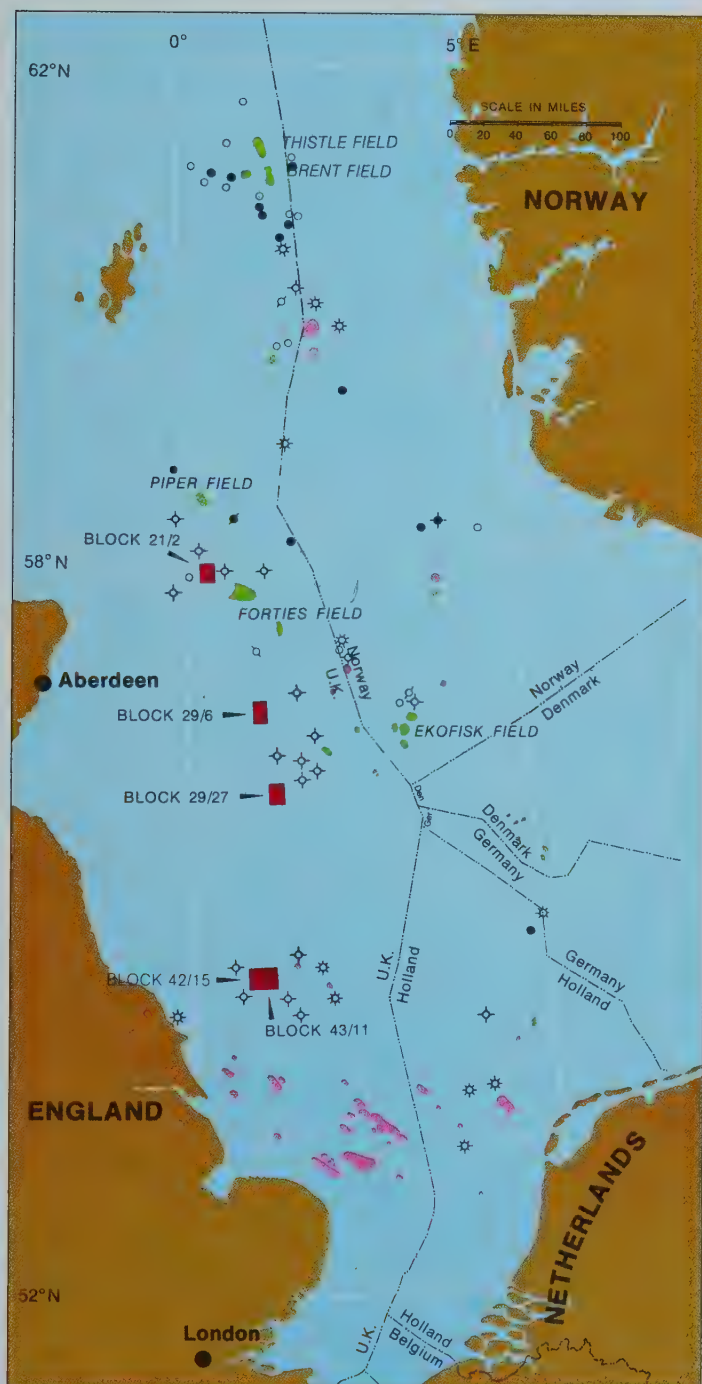
The Group intends to maintain an active interest in developments in Nigeria and will attempt to acquire contracts when the Nigerian government makes available further blocks for exploration.

Peru

Results of offshore seismic in Peru, in the Company's opinion were not particularly attractive. This, together with the Peruvian government's indecision on timing and method of awards, led your Company to withdraw its interest in this area.

Canadian Export Gas & Oil Ltd. NORTH SEA

- CEGO Acreage Gross 285,000 Net 28,500
- Location/drilling ● Oil Well ✱ Gas Well
 - Suspended Oil Well ✧ Abandoned Well
 - Oil Field
 - Gas Field



Land Holdings Canadian and Foreign April 30, 1974

	Gross Acres	Net Acres
CANADIAN		
Alberta	656,895	263,032
Saskatchewan	18,480	6,197
Manitoba	1,370	1,370
British Columbia	159,851	85,193
Northwest Territories	52,982	6,623
East Coast	1,038,298	458,069
Mackenzie Delta (Beaufort Sea)	824,638	412,319
Hudson Bay	2,052,430	1,026,215
Arctic Islands	85,516	85,516
TOTAL CANADIAN	4,890,460	2,344,534
FOREIGN		
North Sea	285,000	28,500
Kenya	6,600,000	1,650,000
Italy	250,100	50,360
United States	4,600	1,000
TOTAL FOREIGN	7,139,700	1,729,860
GRAND TOTAL	12,030,160	4,074,394
ROYALTY AND MINERAL INTERESTS		
Alberta	75,546	
British Columbia	51,487	
Saskatchewan	53,449	
Manitoba	8,173	
TOTAL ROYALTY AND MINERAL INTERESTS	188,655	

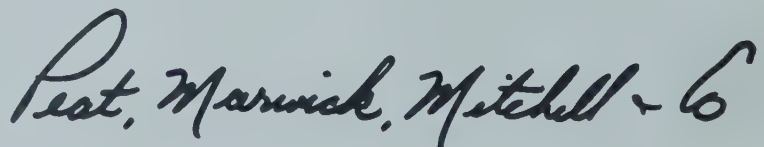
Auditors' Report to the Shareholders

PEAT, MARWICK, MITCHELL & Co.
CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE S.W.
CALGARY, ALBERTA

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and subsidiaries as of April 30, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of April 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for deferred income taxes, with which we concur, have been applied on a consistent basis, as restated (Note 3).

A handwritten signature in cursive script that reads "Peat, Marwick, Mitchell & Co".

Calgary, Alberta
May 24, 1974

Chartered Accountants

Consolidated Statement of Earnings

Year ended April 30, 1974

	1974	1973 (Restated)
OPERATING INCOME:		
Crude oil and gas liquids sales	\$ 2,267,000	1,660,000
Natural gas sales	1,585,000	1,466,000
Royalty income	230,000	177,000
Sulphur sales	13,000	11,000
GROSS INCOME	4,095,000	3,314,000
Less production expenses	801,000	722,000
NET PRODUCTION INCOME	3,294,000	2,592,000
Deduct administrative and general expenses	462,000	373,000
OPERATING PROFIT BEFORE THE FOLLOWING	2,832,000	2,219,000
OTHER CHARGES, net:		
Share transfer and other shareholder expenses	\$ 67,000	65,000
Acreage rentals on non-producing properties	170,000	148,000
Interest on loans	—	35,000
Dry holes and abandoned properties	1,164,000	693,000
	1,401,000	941,000
Deduct miscellaneous income	126,000	74,000
	1,275,000	867,000
EARNINGS BEFORE PROVISIONS	1,557,000	1,352,000
PROVISIONS:		
Depletion and amortization	422,000	408,000
Depreciation	231,000	234,000
	653,000	642,000
NET EARNINGS BEFORE INCOME TAXES	904,000	710,000
INCOME TAXES, DEFERRED (Note 3)	353,000	275,000
NET EARNINGS BEFORE EXTRAORDINARY ITEMS	551,000	435,000
EXTRAORDINARY ITEMS:		
Gain on sale of property	—	1,595,000
Unamortized exploration and pre-production expenditures of a former subsidiary written off	—	1,549,000
	—	46,000
NET EARNINGS	\$ 551,000	481,000
EARNINGS PER SHARE (Note 6):		
Earnings before extraordinary items	\$.07	.05
Net earnings	\$.07	.06

Consolidated Statement of Retained Earnings

Year ended April 30, 1974

	1974	1973 (Restated)
RETAINED EARNINGS, at beginning of year		
as previously reported	\$ 7,146,000	6,501,000
Adjustment for deferred income taxes (Note 3)	2,891,000	2,727,000
As restated	4,255,000	3,774,000
Net earnings for year	551,000	481,000
RETAINED EARNINGS, at end of year	\$ 4,806,000	4,255,000

See accompanying notes.

Consolidated Balance Sheet

April 30, 1974

ASSETS

	<u>1974</u>	<u>1973</u> (Restated)
CURRENT ASSETS:		
Cash and deposit receipts	\$ 531,000	831,000
Short term investments, at cost	500,000	500,000
Marketable securities, at cost (quoted market value \$86,000; 1973—\$99,000)	92,000	51,000
Accounts receivable	919,000	954,000
Inventory of supplies and equipment, at cost	—	49,000
TOTAL CURRENT ASSETS	<u>2,042,000</u>	<u>2,385,000</u>
REFUNDABLE DEPOSITS AND INVESTMENTS, at cost (Note 2)	507,000	<u>450,000</u>
FIXED ASSETS, at cost:		
Productive properties and equipment	\$16,735,000	16,021,000
Other assets	182,000	134,000
	<u>16,917,000</u>	<u>16,155,000</u>
Less accumulated depreciation, depletion and amortization	7,500,000	7,037,000
	<u>9,417,000</u>	<u>9,118,000</u>
Undeveloped properties	5,018,000	3,589,000
	14,435,000	12,707,000
	<u>\$16,984,000</u>	<u>15,542,000</u>

LIABILITIES

	<u>1974</u>	<u>1973</u> (Restated)
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,027,000	489,000
TOTAL CURRENT LIABILITIES	<u>1,027,000</u>	<u>489,000</u>
DEFERRED INCOME TAXES (Note 3)	3,355,000	<u>3,002,000</u>
SHAREHOLDERS' EQUITY:		
Capital stock (Note 4):		
Shares of a par value of 16 $\frac{2}{3}$ cents each.		
Authorized 12,000,000 shares;		
Issued 8,168,577 shares	\$ 1,362,000	1,362,000
Contributed surplus	6,434,000	6,434,000
	<u>7,796,000</u>	<u>7,796,000</u>
Retained earnings	4,806,000	4,255,000
	<u>12,602,000</u>	<u>12,051,000</u>
Approved on behalf of the Board:		
AUGUST F. BECK, Director		
JOHN DRYBROUGH, Director		
	<u>\$16,984,000</u>	<u>15,542,000</u>

See accompanying notes.

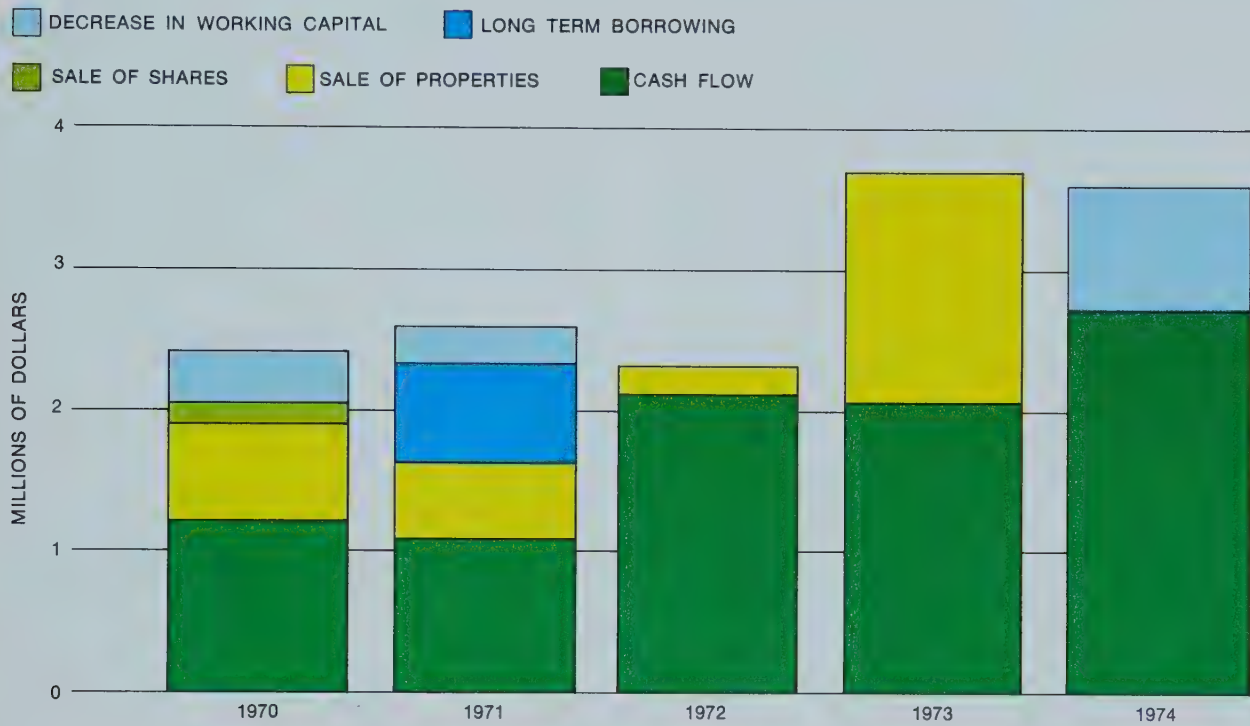
Consolidated Statement of Changes in Financial Position

Year ended April 30, 1974

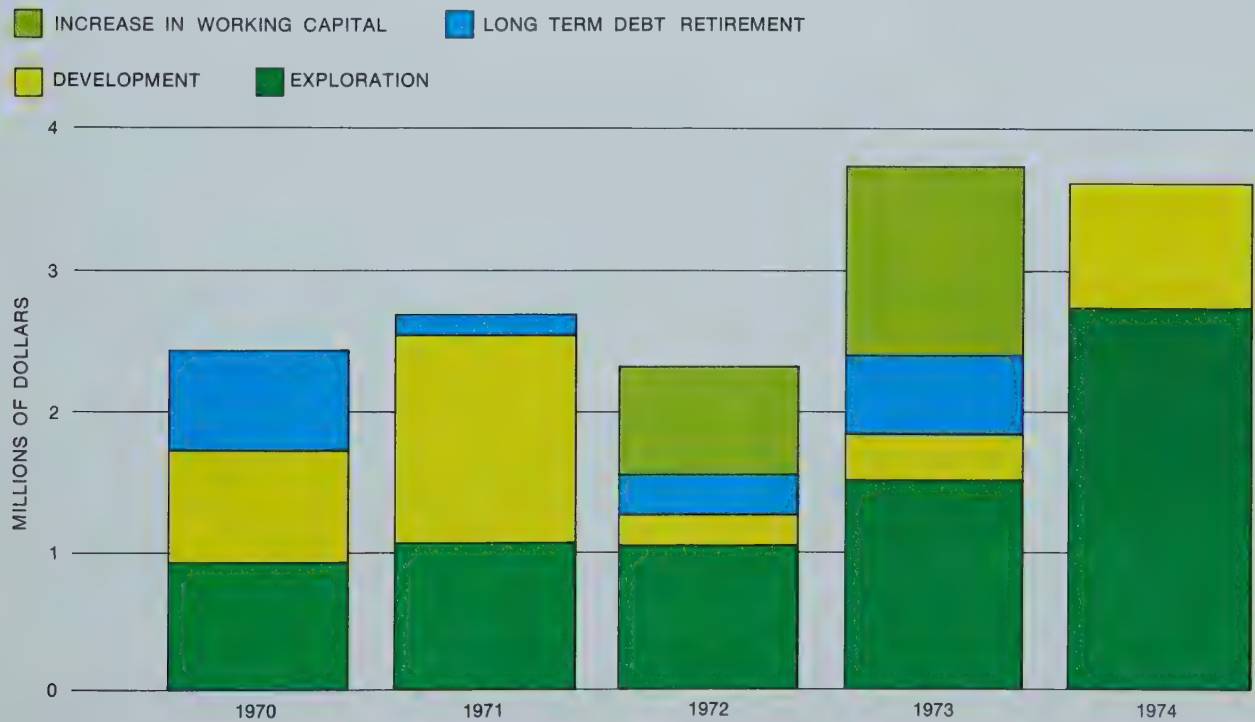
	<u>1974</u>	<u>1973</u> (Restated)
SOURCE OF WORKING CAPITAL:		
Net earnings	\$ 551,000	481,000
Add charges against earnings not requiring a current outlay of working capital:		
Deferred income taxes	353,000	275,000
Depletion and depreciation	653,000	642,000
Dry holes and abandoned properties	1,164,000	693,000
Extraordinary items, net	—	(46,000)
Cash flow from operations	<u>2,721,000</u>	<u>2,045,000</u>
Proceeds from sale of properties	—	1,671,000
WORKING CAPITAL PROVIDED	<u>2,721,000</u>	<u>3,716,000</u>
DISPOSITION OF WORKING CAPITAL:		
Exploration:		
Land acquisition and exploration surveys		
Canadian	1,085,000	964,000
Foreign	569,000	74,000
Wildcat and stepout drilling		
Canadian	641,000	506,000
Foreign	380,000	—
Increase (decrease) in work obligation deposits	43,000	(17,000)
Development and other expenditures:		
Purchase of producing properties	602,000	—
Drilling and equipment of wells	128,000	60,000
Gas gathering systems, plants and miscellaneous, net	154,000	234,000
Reduction of long-term bank loans	—	515,000
WORKING CAPITAL USED	<u>3,602,000</u>	<u>2,336,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>(881,000)</u>	<u>1,380,000</u>
Working capital at beginning of year	1,896,000	516,000
WORKING CAPITAL AT END OF YEAR	<u>\$ 1,015,000</u>	<u>1,896,000</u>

See accompanying notes.

SOURCE OF WORKING CAPITAL



DISPOSITION OF WORKING CAPITAL



Notes to Consolidated Financial Statements

April 30, 1974

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries.

Costs of all oil and gas rights and exploration costs are capitalized when acquired. When undeveloped rights and costs are proven to be productive the accumulated cost is transferred to the producing oil and gas account and charged to earnings by an annual provision for depletion calculated on an area basis on the unit of production method based on the estimated recoverable oil and gas reserves. When such rights and costs are surrendered in an area the accumulated costs are charged against earnings. All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production, its cost is immediately written off. The costs of successful wells are depleted on the unit of production method in the same manner as the costs of developed oil and gas rights.

Lease and well equipment, gas plants and pipelines are being depreciated on the unit of production method; other assets are depreciated over their estimated useful lives.

2. INVESTMENTS:

During the year the company converted a 5% convertible floating charge debenture in the amount of \$300,000 in Bluewater Oil & Gas Limited into 500,000 common shares of that company. The investment is carried at a net cost of \$159,000 in the accompanying balance sheet and at April 30, 1974 the market value of these shares was \$2,000,000. Owing to the number of shares involved, the market value is not necessarily indicative of the value that the company would receive if the shares were to be sold.

3. INCOME TAXES:

For income tax purposes the company may claim tax depreciation and exploration, development and lease acquisition costs which exceed the related amounts charged to expense in the financial accounts. For the years ended April 30, 1973 and 1974 sufficient tax depreciation and exploration, development and lease acquisition costs have been or will be claimed to eliminate taxable income.

Prior to 1974 the company provided for deferred income taxes on timing differences between depreciation charged against earnings and tax depreciation claimed. In 1974, pursuant to a recent directive by the Security Administrators for Canada, the company has retroactively adopted the tax allocation basis of accounting for income taxes deferred as a result of amounts claimed for drilling and exploration costs in excess of depletion and abandonment charges. Under tax allocation, deferred taxes are provided to the extent that current income taxes have been reduced by claiming tax depreciation and exploration, development and lease acquisition costs in excess of the related depreciation, depletion and abandonment charges provided in the financial statements. Retroactive adoption of the tax allocation basis of accounting for income taxes resulted in an additional cumulative provision for deferred taxes of \$2,891,000 at May 1, 1973 and a corresponding reduction in previously reported retained earnings.

The retroactive adoption of the tax allocation basis of accounting has resulted in a decrease in net earnings previously reported for 1973 and the net earnings that would have been reported for 1974 on the previous basis. The 1973 financial statements have been restated to reflect the change and the effect for the years ended April 30, 1973 and 1974 is set out below.

Year ended April 30,	Decrease in Net Earnings	
	Total	Per Share
1973	\$164,000	\$0.02
1974	\$130,000	\$0.01

At April 30, 1974 the following amounts remained to be carried forward and applied against future income to the maximum amount permitted annually under the Canadian Income Tax Act:

Exploration, development and lease acquisition costs:

—Canadian	\$ 373,000
—Foreign	\$ 436,000
Tax depreciation	\$2,073,000

4. CAPITAL STOCK:

The company has reserved 90,000 shares of its capital stock for stock options to employees as follows:

<u>No. of Shares</u>	<u>Option Price</u>	<u>Date First Exercisable</u>	<u>Expiry Date</u>
5,000	\$4.50	September 10, 1972	December 10, 1976
33,000	3.50	June 19, 1973	September 19, 1977
3,000	4.15	April 2, 1974	July 2, 1978
20,000	3.20	September 17, 1973	December 17, 1977
5,000	4.15	October 22, 1973	January 22, 1978
24,000	Authorized to be granted by the President until June 1, 1976 at the market price per share on the date of the grant.		
<u>90,000</u>			

All options are exercisable one fifth each year on a cumulative basis. During the year options on 23,000 shares expired.

5. REMUNERATION PAID TO DIRECTORS AND SENIOR OFFICERS:

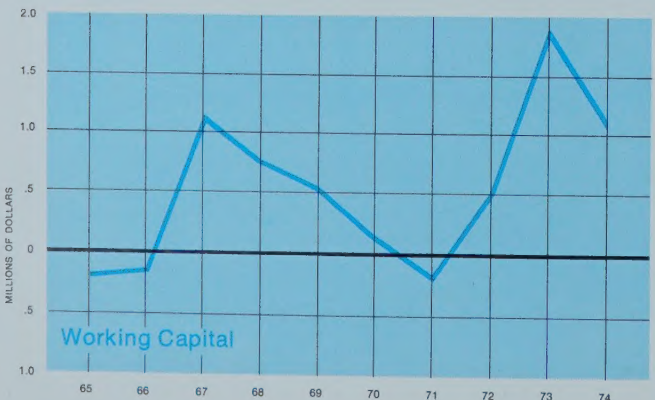
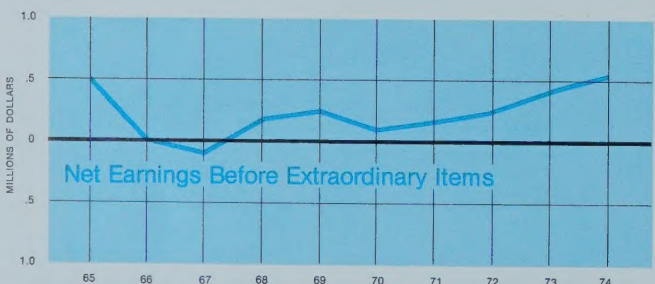
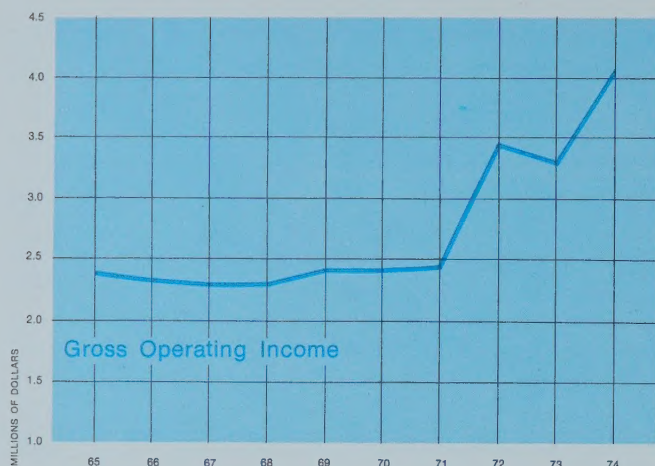
Remuneration paid during the year to directors and senior officers amounted to \$160,000 (1973—\$150,000).

6. EARNINGS PER SHARE:

Earnings per share are calculated using the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share are not presented as there would be no material change.



Ten Year Statistical Summary 1965-74



PRODUCTION:

Oil—Annual	Barrels
Daily Average	Barrels
Gas—Annual	Billion Cubic Feet
Daily Average	Million Cubic Feet
Sulphur—Annual	Long Tons
Daily Average	Long Tons

EARNINGS:*

Gross operating income less royalties paid	\$
Production expenses	\$
Administrative and general expenses	\$
Share transfer and other shareholder expenses	\$
Acreage rentals on non-producing properties	\$
Interest and miscellaneous, net	\$

Cash flow from operations	\$
Dry holes and abandoned properties	\$
Other non-cash charges or (income) net	\$

Earnings before provisions	\$
Depletion and depreciation	\$
Net earnings (loss) before income taxes	\$
Income taxes, deferred	\$
Net earnings (loss) before extraordinary items	\$
Extraordinary items—gain—net of deferred taxes	\$
Net earnings	\$

CAPITAL STRUCTURE:*

Number of shares outstanding	\$
Shareholders' equity	\$
Funded debt	\$
Bank and other loans	\$
Deferred income taxes	\$
(Working capital) or deficiency	\$
Total capital employed	\$

CAPITAL INVESTMENT:

Fixed assets, net—beginning of year	\$
Exploration expenditures	\$
Development expenditures	\$
(Abandonments, provisions and adjustments, net)	\$
Fixed assets, net—end of year	\$
Deferred charges, unamortized	\$
Other non-current assets	\$
Total capital invested	\$

SIGNIFICANT RATIOS:

Net earnings to gross earnings	%
Cash flow to gross earnings	%
Operating expenses to gross earnings	%
Net earnings return on capital invested	%
Cash flow per share	\$
Net earnings before extraordinary items per share	\$
Net earnings per share	\$

WELLS DRILLED—GROSS (NET):

Exploratory—Oil	
Gas	
Dry	
Development—Oil	
Gas	
Dry	
Total wells drilled	
Total footage drilled	

LAND HOLDINGS:

Canadian—Gross acreage	
Net acreage	
Foreign—Gross acreage	
Net acreage	

OWNERS AND EMPLOYEES:

Number of shareholders	
Number of employees	

* Certain figures in the Earnings and Capital Structure sections have been restated to reflect the change in basis of accounting for income taxes. See Note 3 to consolidated financial statements.

1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
626,140	591,184	569,483	480,268	486,192	440,729	443,029	425,690	403,883	414,111
1,715	1,620	1,560	1,316	1,332	1,207	1,214	1,166	1,107	1,135
7,904	8,507	9,670	6,804	6,779	6,946	6,562	6,867	7,945	8,710
22	23	26	19	19	19	18	19	22	24
16,431	17,539	20,616	5,466	3,855	2,992	—	—	—	—
45	48	56	15	11	8	—	—	—	—
4,095,000	3,314,000	3,496,000	2,477,000	2,419,000	2,420,000	2,290,000	2,259,000	2,337,000	2,397,000
801,000	722,000	711,000	679,000	582,000	540,000	538,000	498,000	518,000	438,000
462,000	373,000	342,000	297,000	278,000	253,000	281,000	264,000	224,000	102,000
67,000	65,000	70,000	90,000	98,000	73,000	110,000	124,000	74,000	33,000
170,000	148,000	206,000	249,000	186,000	221,000	190,000	175,000	216,000	124,000
(126,000)	(39,000)	59,000	61,000	94,000	89,000	147,000	180,000	133,000	112,000
1,374,000	1,269,000	1,388,000	1,376,000	1,238,000	1,176,000	1,266,000	1,241,000	1,165,000	809,000
2,721,000	2,045,000	2,108,000	1,101,000	1,181,000	1,244,000	1,024,000	1,018,000	1,172,000	1,588,000
1,164,000	693,000	964,000	398,000	469,000	317,000	157,000	515,000	498,000	256,000
—	—	—	8,000	10,000	10,000	10,000	10,000	10,000	(12,000)
1,164,000	693,000	964,000	406,000	479,000	327,000	167,000	525,000	508,000	244,000
1,557,000	1,352,000	1,144,000	695,000	702,000	917,000	857,000	493,000	664,000	1,344,000
653,000	642,000	720,000	492,000	523,000	521,000	557,000	591,000	638,000	526,000
904,000	710,000	424,000	203,000	179,000	396,000	300,000	(98,000)	26,000	818,000
353,000	275,000	174,000	37,000	74,000	143,000	111,000	(33,000)	9,000	286,000
551,000	435,000	250,000	166,000	105,000	253,000	189,000	(65,000)	17,000	532,000
—	46,000	96,000	178,000	114,000	—	—	2,371,000	—	—
551,000	481,000	346,000	344,000	219,000	253,000	189,000	2,306,000	17,000	532,000
8,168,577	8,168,577	8,168,577	8,168,577	8,166,677	8,141,944	8,059,944	7,919,769	7,828,394	7,828,394
12,602,000	12,051,000	11,570,000	11,224,000	10,874,000	10,553,000	9,583,000	8,976,000	6,438,000	6,478,000
—	—	—	—	111,000	453,000	707,000	1,033,000	1,284,000	1,535,000
—	—	515,000	835,000	142,000	498,000	580,000	1,661,000	1,768,000	1,667,000
3,355,000	3,002,000	2,727,000	2,487,000	2,410,000	2,254,000	2,111,000	2,000,000	812,000	803,000
(1,015,000)	(1,896,000)	(516,000)	176,000	(118,000)	(535,000)	(765,000)	(1,233,000)	135,000	196,000
14,942,000	13,157,000	14,296,000	14,722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000
12,707,000	12,280,000	12,832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000
2,718,000	1,527,000	1,015,000	1,015,000	993,000	2,096,000	1,009,000	515,000	692,000	2,296,000
884,000	294,000	247,000	1,529,000	844,000	741,000	494,000	654,000	569,000	673,000
(1,874,000)	(1,394,000)	(1,814,000)	(1,208,000)	(965,000)	(1,135,000)	(693,000)	(1,557,000)	(946,000)	(1,050,000)
14,435,000	12,707,000	12,280,000	12,832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000
—	—	1,549,000	1,574,000	1,608,000	1,649,000	1,690,000	1,729,000	1,768,000	1,812,000
507,000	450,000	467,000	316,000	315,000	950,000	1,604,000	2,596,000	169,000	682,000
14,942,000	13,157,000	14,296,000	14,722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000
13	13	7	7	4	10	8	—	1	22
66	62	60	44	49	51	45	45	50	66
31	33	30	39	36	33	36	34	32	23
4	4	2	2	2	2	2	19	—	5
33	25	26	14	14	15	13	13	15	20
7	5	3	2	1	3	2	—	—	7
7	6	4	4	3	3	2	29	—	7
2 (0.1)	2 (0.4)	1 (0.3)	— (—)	2 (0.2)	2 (0.5)	— (—)	3 (1.0)	3 (1.5)	4 (1.8)
3 (0.8)	3 (0.8)	5 (2.2)	1 (0.1)	1 (0.1)	3 (0.1)	4 (0.8)	1 (0.3)	1 (0.5)	— (—)
16 (4.7)	19 (4.9)	20 (5.1)	9 (0.9)	11 (1.1)	12 (2.9)	6 (—)	14 (2.5)	12 (4.8)	7 (3.2)
2 (0.1)	— (—)	1 (0.5)	3 (0.6)	2 (0.7)	1 (0.3)	2 (0.7)	6 (2.0)	9 (4.1)	10 (3.8)
2 (1.0)	— (—)	— (—)	2 (0.3)	4 (0.5)	14 (9.2)	3 (0.8)	3 (2.5)	2 (2.0)	— (—)
— (—)	— (—)	1 (0.2)	1 (0.2)	1 (—)	1 (1.0)	— (—)	1 (0.5)	3 (1.2)	1 (0.3)
25 (6.7)	24 (6.1)	28 (8.3)	16 (2.1)	21 (2.6)	33(14.0)	15 (2.3)	28 (8.8)	30(14.1)	22 (9.1)
161,000'	134,000'	128,000'	129,000'	178,000'	177,000'	75,000'	126,000'	129,000'	123,000'
4,890,000	5,323,000	5,525,000	6,006,000	6,530,000	5,365,000	2,159,000	2,221,000	2,698,000	2,832,000
2,345,000	2,494,000	2,486,000	2,638,000	2,728,000	3,264,000	703,000	1,105,000	2,042,000	2,227,000
7,140,000	7,026,000	285,000	—	—	—	—	—	—	—
1,730,000	1,702,000	29,000	—	—	—	—	—	—	—
11,948	12,136	12,117	12,584	10,433	9,134	8,992	8,586	7,790	5,022
31	31	31	31	32	33	33	33	37	38

